

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 IO-11

SAM-01 /105 W

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R 101723Z FEB 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 492

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 01386

PASS AGRICULTURE FOR ASSISTANT SECRETARY BELL AND DAVID L. HUME

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC COMMISSION MODIFIES ORIGINAL NFDN MIXING REGULATION
TO INCLUDE DEPOSIT SCHEME

REF: (A) PARIS 3861, (B) EC BRUSSELS 00077

1. BEGIN SUMMARY: THE EC COMMISSION HAS A NEW DRAFT PROPOSAL TO
DISPOSE OF 600,000 TONS OF NFDN. IT IS A SUBSTATUTE FOR THE
ORIGINAL ONE (REFTEL B) AND WOULD OBLIGE NOW ALL FEED COMPOUNDERS
AND LIVESTOCK PRODUCERS TO PURCHASE 50 KGS OF NFDN FOR EACH TONE
OF EC OR IMPORTED PROTEIN MATERIAL THEY USE. THE PURCHASE REQUIREMENT

WOULD BE ENFORCED BY PAYMENT OF A DEPOSIT OF 30 U.A. PER TONE,
WHICH WOULD BE REFUNDED UPON PRESENTATION OF PROOF OF
PURCHASE. THE DRAFT PROPOSAL ALSO CONTAINSTHE BARE OUTLINE OF A
SCHEME TO STORE DOMESTIC AND IMPORTED PROTEIN MATERIALS IN ORDER
TO ATTENUATE THE EFFECTS OF THE NFDN PURCHASE OBLIGATION
ON IMPORTS FROM THIRD COUNTRIES. END SUMMARY.

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2. THE COMMISSION'S PROPOSED NFDM FIXING REGULATION TO DATE HAS MET WITH MIXED SUPPORT FROM THE MEMBER STATES, SEVERE CRITICISM FROM THE EUROPEAN FEDERATION OF ANIMAL FEED COMPOUNDERS (FEFAC), AND CRITICISM FROM SOME EC COMMISSIONERS, AS WELL AS THE US, OVER THE NON-GATTABILITY OF THE PROPOSAL. LARDINOIS AND HIS COLLEAGUES HAVE BEEN WORKING DILIGENTLY TRYING TO MITIGATE THESE DIFFICULTIES BY MODIFYING THE PROPOSED REGULATION. THE RESULT IS A NEW DRAFT PROPOSAL, APPLICABLE TO ALL USERS OF CAKE OR MEAL, WHICH CONSISTS BASCIALY OF A DEPOSIT OF 30 U.A./M.T. OF CAKE OR MEAL MADE FROM OILSEEDS PRODUCED IN THE EC OR IMPORTED FROM ANY SOURCE. THE DEPOSIT WOULD BE REFUNDED UPON SUBMISSION OF EVIDENCE THAT 50 KGS. OF DENATURED NFDM HAD BEEN PRUCHASED FROM INTERVENTION AGENCIES FRO EACH SUCH TONE OF PROTEIN SUPPLEMENT, DOMESTIC OR IMPORTED. THIS NEW VERSION, THEREFORE, CONSISTS OF AN OBLIGATION TO PURCHASE 50 KGS. OF NFDM FOR EACH TONE OF PROTEIN MATERIAL USED IN ANIMAL FEED RATION, INSTEAD OF AN OBLIGATION ONLY ON LARGE COMPOUNDERS TO INCORPORATE 2 PERCENT NFDM IN ANIMAL FEEDS, AS SPECIFIED IN ARTICLE 1, PARA. 3 OF THE ORIGINAL PROPOSAL. WE HAVE OBTAIN A COPY OF THE NEW DRAFT PROPOSAL WHICH WAS DISCUSSED INFORMALLY WITHIN THE COMMISSION ON FEB. 3. IT IS

SCHEDULED TO BE DISCUSSED FORMALLY BY THE FULL COMMISSION ON FEB. 11. IF APPROVED, IT WILL BE PROPOSED TO THE FEBRUARY 16TH SESSION OF THE COUNCIL OF MINISTERS OF AGRICULTURE.

3. FOR IMPORTED PROTEINS, PROOF OF THE DEPOSIT WOULD BE REQUIRED AT THE BORDER. FOR DOMESTIC PROTEIN PROOF OF DEPOSIT WOULD BE REQUIRED AT THE FEED MILL. FOR PROTEIN MATERIAL PRODUCED IN THE COMMUNITY, PAYMENT OF CRUSHING SUBSIDIES APPLICABLE TO EACH TON OF RAPESEED, SUNFLOWERSEED, LINSEED AND SOYBEANS, AND SUBSIDIES APPLICABLE TO DRIED FORAGE, WOULD BE SUBJECT TO POSTING OF A DEPOSIT WHICH WOULD BE RELEASEDIF PROOF OF PURCHASE OF 50 KGS. OF DENATURED NFDM FROM AN INTERVENTION AGENCY IS PRODUCED WITHIN A SPECIFIED TIME PERIOD. IMPORTATION OF OILSEEDS (RAPE, LINSEED, SOY, COPRA, PALM, PEANUT, COTTON, SUNFLOWER), CAKE AND MEAL, AND COMPOUND FEEDS CONTAINING MORE THAN 50 PERCENT OF CAKE OR MEAL, WOULD BE PERMITTED AGAINST PRESENTATION OF A "PROTEIN CERTIFICATE", WHICH WOULD BE ISSUED UPON PAYMENT OF A DEPOSIT. THE DEPOSIT WOULD BE REFUNDED IF PROOF OF PURCHASE OF A FIXED QUANTITY OF DENATURED LIMITED OFFICIAL USE

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NFDM FROM AN INTERVENTION AGENCY IS SUBMITTED WITHIN A FIXED TIME PERIOD. THE "PROTEIN CERTIFICATE" WOULD BE SAME FOR ALL CAKES AND MEALS, AND COMPOUND FEEDS. BUT IT WOULD BE MODIFIED BY TYPE OF OILSEEDS, AND THEREFORE, THE DEPOSITS ON OILSEEDS WOULD REFLECT THEIR EQUIVALENT IN CAKE OR MEAL.

4. PROTEIN MATERIAL IS DEFINED IN THE COMMISSION'S PROPOSAL AS CAKE AND MEAL, GLUTEN FEED, AND DRIED FORAGE, EITHER IMPORTED OR

PRODUCED IN THE EC. COMMUNITY PRODUCTION OF THESE MATERIALS IS ESTIMATED BY THE COMMISSION AT ABOUT 16 MILLION TONS ANNUALLY CONSISTING OF:

--- SAOY CAKE AND MEAL: 9 MILLION

--- OTHER CAKES AND MEALS, INCLUDING GLUTEN FEED: 5.4 MILLION

--- DEHYDRATED FORAGE: 1.6 MILLION

5. THE COMMISSION SEES THE FOLLOWING ADVANTAGES IN ITS MODIFIED PROPOSAL:

(A) THE FLOW OF PROTEIN MATERIALS IS CONTROLLED AT THE MOST EFFECTIVE POINT, I.E. AT IMPORT FOR MATERIALS COMING FROM THIRD COUNTRIES, AT THE CRUSHERS FOR COMMUNITY OILSEEDS AND, POSSIBLY, DEHYDRATED FORAGE.

(B) THE BURDEN OF PROOF FALLS ON THE CRUSHER OR COMPOUNDER, THE DEPOSIT BEING RETURNED ONLY UPON SUBMISSION OF PROOF OF PURCHASE OF NFDN ISSUED BY THE INTERVENTION AGENCY.

(C) INDISCRIMINATE APPLICATION CAN BE MADE OF THE SYSTEM WITHOUT HAVING TO DEFINE FACTORIES AND CRUSHERS, OR EXERT CONTROL OVER THEM.

(D) NO SANCTIONS NEED TO BE IMPOSED BY MEMBER STATES BECAUSE USERS FACE POSSIBLE LOSS OF DEPOSIT.

(E) THE DEPOSIT WILL BE FIXED AT SUCH A LEVEL THAT THE PURCHASE OF NFDN IS MORE ATTRACTIVE THAN THE LOSS OF THE DEPOSIT.

(F) THERE COULD BE MORE EQUITABLE DISTRIBUTION OF THE ADDED COSTS TO AVERAGE LIVESTOCK PRODUCERS AND LARGE AND SMALL COMPOUNDERS.

6. THE PROPOSAL RECOGNIZES THAT IMPORTS FROM THIRD COUNTRIES MAY BE AFFECTED BECAUSE OF THE SUBSTITUTION EFFECT OF NFDN. IT, THEREFORE, PROPOSES A STORAGE SYSTEM FOR SOYBEANS, UNSPECIFIED CAKE AND MEAL, AND DEHYDRATED FORAGE IN ORDER TO ATTENUATE THE EFFECT OF THE USE OF NFDN ON EC IMPORTS OF PROTEIN MATERIALS FROM THIRD COUNTRIES.

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7. THE COMMISSION SEES NO PROBLEMS WITH THE STORAGE OF SOYBEANS. BUT CAKE AND MEAL NEEDS TO BE LOW IN HUMIDITY IF HEATING AND CAKING ARE TO BE AVOIDED AND STORAGE FACILITIES MUST BE EQUIPPED FOR THIS. THE COMMUNITY IS LIMITED IN THIS CAPACITY, ACCORDING TO THE COMMISSION. STORAGE OF DEHYDRATED FORAGE IS TECHNICALLY FAR MORE DIFFICULT.

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8. THE COMMISSION BELIEVES IT DESIRABLE TO RESERVE 50 PERCENT OF THE QUANTITIES TO BE STORED FROM COMMUNITY PRODUCTS. TOTAL STORAGE ENVISAGED IS 400,000 TONS ON A MEAL/CAKE BASIS. STORAGE COULD VARY BETWEEN SIX AND TWELVE MONTHS, AND STOCKS IN STORAGE WOULD BUILD UP PROGRESSIVELY AND REACH A DESIRED LEVEL AFTER EIGHT MONTHS. STOCK WITHDRAWALS WOULD BE CARRIED OUT PROGRESSIVELY SO AS NOT TO DISTURB THE MARKET.

9. THE STORAGE PROGRAM WOULD BE BASED ON CONTRACTS WITH PRIVATE INDUSTRIES, WITH SUBSIDIES TO BE DETERMINED BY BIDS. AUTHORITIES WOULD HAVE TO VERIFY THAT QUANTITIES OFFERED FOR STORAGE WOULD BE OTHER THAN WORKING STOCKS FOR THOSE MAKE BIDS.

10. THE COMMISSION INTENDS TO USE THE FOLLOWING CAKE AND MEAL CONSUMPTION DATA AS THE BASIS FOR INSURING THE STORAGE IS EQUALLY DIVIDED AMONG THE MEMBER STATES:

EC: OILSEED, CAKE AND MEAL, APPARENT CONSUMPTION 1974
(1,000 TONS AND PERCENTAGE)

	QUANTITY	SHARE
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GERMANY	4,104	29
FRANCE	2,558	18

ITALY	1,818	13
NETHERLANDS	2,050	14
BELGIUM	1,033	7
LUXEMBOURG	-	-
UNITED KINGDOM	1,302	9
IRELAND	150	1
DENMARK 1/	1,204	9
TOTAL	14,219	100

1/ DENMARK HAS THE MOST LIMITED STORAGE CAPACITY IN THE EC.

1. ADMITTING THE DIFFICULTY OF ESTIMATING WITH PRECISION THE TOTAL COST OF SUCH A STORAGE OPERATION, THE COMMISSION BELIEVES THAT A SUBSIDY OF 3 U.A. PER MONTH PER TON IS REASONABLE. IT ESTIMATES THEREFORE, THAT MONTHLY STORAGE COSTS FOR 400,000 TONS WOULD TOTAL 1.25 MILLION U.A. OR 10 MILLION U.A. FOR EIGHT MONTHS.

12. THE ANIMAL FEED INDUSTRY IS THE SECTOR MOST AFFECTED BY THIS PROPOSAL. FEFAC VICE-PRESIDENT ABONNENC AND ITS SECRETARY GENERAL NAMUR DISCUSSED THE FOREGOING PROPOSAL WITH LARDINOIS ON FEB. 3. THEY SUBSEQUENTLY TOLD A MISSION OFFICER THAT FEFAC IS RELUCTANTLY WILLING TO GIVE THE MODIFIED REGULATION CUM DEPOSIT SCHEME A CHANCE TO HELP LARDINOIS MOVE THE 600,000 TONS OF NFDM WHICH HE CONSIDERS SURPLUS. BUT THEY DO NOT BELIEVE THIS SOLUTION WILL GET TO THE ROOT OF THE DAIRY PROBLEM, WHICH IS STRUCTURAL IN NATURE; AND THEY OBJECT TO THE DEPOSIT SCHEME BECAUSE IT WOULD DISCRIMINATE AGAINST COMPOUNDERS WHO FORFEIT THE DEPOSIT BY EFFECTIVELY FORCING THEM TO PAY MORE PER KILOGRAM OF PROTEIN. MOREOVER, THEY EXPECT NFDM SURPLUSES TO BE AROUND FOR THE NEXT TWO TO FIVE YEARS. FEFAC OFFICIALS THEREFORE FEAR THAT LARDINOIS WILL BE FORCED TO EXTEND HIS PROPOSED PROGRAM BEYOND THE ENVISAGED EIGHT MONTHS AND TO APPLY IT TO MORE THAN 600,000 TONS. ALTHOUGH FEFAC IS NOT RECOMMENDING A STRONG PROTEST IN GATT ON THE CURRENT PROPOSAL, IT HAS ASKED US TO RECOMMEND THAT THE USG OBJECT STRENUOUSLY IN THE GATT IF THIS PROPOSAL IS EXTENDED FOR PROLONGED. MORRIS

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